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OFFICE OF REPORTS AND ESTIMATES, CIA  
FAR EAST/PACIFIC DIVISION

INTELLIGENCE HIGHLIGHTS NO. 92  
15 MARCH to 21 MARCH 1950

SECTION I. SUMMARY OF FAR EAST TRENDS AND DEVELOPMENTS

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[REDACTED]

Faced with steady inflation, the Chinese of the Canton area are continuing to avoid Communist regulations calling for the conversion of Hong Kong dollar holdings into PNB (p. 2). Meanwhile, a study of probable USSR agreements on the Central Asian province of Sinkiang lead to the conclusion that territorial acquisitions by the USSR are unnecessary and that the Chinese Communists will provide an adequate apparatus for Soviet control of that defensively strategic area (p. 3).

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[REDACTED] Chinese Communist assistance to Ho Chi Minh's "Resistance" regime in Indochina indicates that some military aid is almost certainly being provided at present and that more can be expected in the immediate future (p. 4).

The Thai Government is making a show of instituting strong anti-Communist measures, presumably with an eye on the "self-help" condition attached to future US aid proposals (p. 5).

The first conference of the "equal partners" of the Netherlands-Indonesian union is scheduled to convene this weekend: items on the agenda are extremely sensitive and the atmosphere is uneasy (p. 6).

NEWS NOTES

LST's barred from Shanghai [REDACTED]

[REDACTED] Peiping academy for Party elite....Burmese seize Karen "capital".

NOTE: Section III contains a description of the Russian communities in China.

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The marginal notations used in succeeding sections of this weekly ("A", "B", or "C") indicate the importance of the items in D/FE opinion, with "A" representing the most important.

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SECTION II. DEVELOPMENTS IN SPECIFIED AREAS

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CHINA

Hyperinflation in Canton--The steady decline in the value of the Chinese Communist currency in Canton, which has been losing an average 50% of its value monthly, highlights the refusal of the Chinese people in that area to exchange their holdings of Hong Kong dollars for Communist money. When the Communists took over Canton last October, over HK\$200 million (roughly US\$30 million) was circulating

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in the city and surrounding area. The capture of the city offered the Communists a tidy prize in much-needed foreign exchange. Losing no time in seizing their advantage, the Communist authorities offered PBN 500 for each HK\$1, and at the same time banned the circulation of Hong Kong currency.

From the start, despite publicized "clean-up" drives to punish those guilty of violating the ban against the Hong Kong currency, the people of Canton displayed extreme reluctance to surrender Hong Kong dollars. This lack of confidence in the Communist currency was justified by the record of subsequent months, which saw PBN steadily depreciating in value. In February 1950, the black market rate for Hong Kong dollars climbed to PBN 10,000. By last week, with public confidence in the Communist government strained as a result of harassing Nationalist air attacks and as a result of the reported evacuation of many government offices from Canton, the black price of Hong Kong dollars had soared to PBN 22,000.

USSR's role in Sinkiang--In addition to the published provisions of the Sino-Soviet Treaty, indications point to the existence of an unpublished agreement, providing for joint Sino-Soviet development of Sinkiang, as a result of which the USSR may have acquired legal sanction for a position of special influence in Sinkiang. The presence at the recent Moscow negotiations of SEYFUDDIN, formerly a member of the Soviet-controlled Ili regime and currently Chinese Communist-appointed Vice Chairman of the Sinkiang Provincial Government, indicates that Sinkiang affairs were on the Kremlin agenda. In recent months, moreover, the Chinese Communists have publicized plans for extensive economic development, and even industrialization, in Sinkiang. Since such plans would be nearly impossible to implement, without Soviet aid, this propaganda probably is designed to prepare the Chinese public for the granting of a preferred position in the economy of Sinkiang to the USSR. .

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The Soviet goal in Sinkiang -- assurance of a controlling influence in an area regarded as essential to the defense of Soviet Central Asia -- is primarily a strategic one. As in the 1933-1943 period, when SHENG Shih-tsai was Governor of Sinkiang, Soviet domination of the province today can be ensured through joint Sino-Soviet economic activity, with an attendant influx of Soviet advisors and technicians, attached to the provincial government. The present secret agreement can be presumed to cover Soviet rights to mineral resources (especially petroleum and wolfram), the establishment of Soviet trading firms, new privileges of investment, an extension of the former Sino-Soviet air agreement, the expansion of Soviet consular establishments, and the assignment of Soviet advisors both to the Sinkiang Provincial Government and to the Chinese Communist armed forces in Sinkiang.

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It appears probable that Soviet control over Sinkiang will be exercised through the medium of the Peiping regime and that no territorial concessions will be sought at this time. The Soviet-dominated Ili government in Western Sinkiang appears to have been liquidated and the entire province placed under the nominal authority of a Chinese, rather than Turki, administration, responsible to Peiping. Some of the Ili leaders have been appointed by Peiping authorities to serve in this new provincial government and have been admitted to membership in the Chinese Communist Party. The Ili armed forces have been incorporated in the Chinese Communist army and have been moved outside of the Ili area, which is now garrisoned by Chinese forces. This technique of indirect control will (1) impress the Chinese with the belief that the USSR does not intend to violate Chinese territorial integrity and (2) allow the Chinese Communists to bear the responsibility for local unrest in the province.

INDOCHINA

Chinese Communist aid to Ho—The balance of information on the extent of Chinese Communist aid to the Ho Chi Minh regime in Vietnam indicates that there is almost certainly some movement of military supplies from China to Ho's Resistance forces and that Resistance personnel have moved tactically back and forth across the Chinese border without interference. Neither the present existence of a large-scale program of Chinese Communist military aid nor the participation by Chinese Communist forces in the war against the French has been established, however.

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Now that the Chinese Communists control south China and are publicly committed to the support ("moral and material, where possible") of the various "liberation" movements of Southeast Asia, the present tendency is to attribute all Resistance arms acquisitions to Chinese Communist aid. However, it is extremely difficult at present to determine exactly from what sources Resistance munitions are being received and what percentage of them are received from the Chinese Communists as part of an active program of military and political support. It is quite possible that most of the arms now being obtained by the Resistance are captured from the French, locally manufactured, or purchased from a variety of sources, including the Chinese Communists.

25X1 [redacted] The fact that there has been no evident increase in Resistance military capabilities indicates either that the Resistance has achieved no really significant increase in its armaments or that, assuming military aid is being received, it is presently being reserved for future operations.

The apparent increase in Chinese Communist-Resistance contacts, when viewed against the ideological background of the Chinese Communist-Resistance relationship, establishes the practical certainty of some aid at present and the strong probability of increased aid in the immediate future, provided: (1) that the Chinese Communists succeed in consolidating their south China position and will not be exclusively preoccupied with the pacification of an unruly peasantry or the intended invasions of Hainan, Taiwan, and Tibet and (2) that the Resistance under Ho Chi Minh does not break with the Stalinist bloc.

#### THAILAND

Anti-Communist campaign--Recent Government pronouncements attacking Communist propaganda and activities in Thailand possibly presage a firmer official Thai stand against local Communism. Public communiques and speeches by various officials, including Premier Phibul and Army C in C Phin, have appealed to business, labor and student groups for cooperation in fighting Communist subversion, in the national interest, and have attempted to alert the Thai people against confusion spread by Communist propaganda.

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Although these developments indicate a growing awareness of communism's threat to the Thai people, motivation for such a campaign would stem in large part from a continuing strong desire for US support of Thailand, in terms of military and economic aid, since, in the past, the US has indicated that such aid would be contingent upon Thai self-help. The action probably also derives in part from basic Thai sino-phobia, recently aggravated by Peking propaganda blasts.

The Thai Government's anti-Communist activities are subject, however, both to Phibul's whims and to pressure from certain military and government officials, some of whom reportedly are unwilling to commit themselves or the Government irrevocably at this time. Thusfar, the Thai Government has given little substance to its professed abhorrence of subversive activities in Thailand. Failing vigorous implementation -- such as promulgation of emergency decrees or prosecution of disruptive elements as violators of constitutional law -- the present anti-Communist campaign will be more a matter of face than fact.

#### INDONESIA

First Union conference to meet--The Netherlands-Indonesian Union conference, scheduled to convene at Djakarta on 25 March, is the first such Union meeting to be held and is regarded by both countries as particularly significant. Both the Dutch and the Indonesians will be represented by a strong delegation. Two of the issues expected to be discussed -- Indonesian claims to Dutch New Guinea and the future status of Netherlands civil servants in Indonesia -- are extremely delicate questions, which, if they remain unresolved, may seriously exacerbate relations between the two new partner countries. The meeting will take place in an atmosphere disturbed by Dutch involvement in the Westerling affair, recent drastic Indonesian financial measures, rivalry between the Indonesian federal government and its principal state, the old Jogjakarta Republic, and intensified Indonesian nationalism.

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#### NEWS NOTES

Chinese Communist refusal to grant clearances to two LST's, which were to evacuate US nationals and other foreign personnel from Shanghai, probably will be "explained" on the grounds that the LST's are "military craft" rather than the commercial vessels for which clearance had been originally promised. Another motive behind the refusal appears to be the Communists' belief that the US, in their view "responsible" for the Nationalist blockade that made the proposed LST shuttle necessary, should not be allowed to complete the evacuation of nationals without also "breaking" the blockade. There is as yet no evidence that the Communists intend to prevent the US withdrawal from China, but they may make the process both difficult, lengthy and costly.

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The Chinese People's University opened in Peiping on 13 March with an enrollment of over 1600 students and a staff of 130, including "Soviet professors and experts". According to a Chinese Communist announcement, the students have been specially selected from among the best cadres and workers in all the main cities of China. More than half are experienced revolutionary cadres and industrial workers, while the rest are intellectuals from various Peiping colleges. The institution is offering a 2- to 4-year course in public affairs as well as shorter six-month courses. In addition, a 2-year Russian language course has been started and special institutes have been established for research in Marxism-Leninism, the problems of the Chinese revolution, and the like. The People's University presumably will function as a training school for first-rank Chinese Communist administrators. Combining political indoctrination with training for technical competence under the direct influence of Soviet instructors, the University may eventually become the principal source of administrative talent for the Communist regime.

The seizure of Toungoo, capital city of the insurgent Karens, was announced by a triumphant Burmese communique on 20 March. The Karens reportedly offered no resistance in defense of their "capital" and the occupation was an orderly one. Toungoo's fall represents the first major victory by Government forces against any of the principal insurgent groups in Burma and probably means the end of organized Karen resistance, although prolonged guerrilla warfare may be expected to continue. In addition to enhancing the prestige of the Burmese Government and raising the morale of Burma's armed forces, the reoccupation of Toungoo should permit the release of military units for a drive against Communist and PVO headquarters in Prome.



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### SECTION III. RUSSIAN COMMUNITIES IN CHINA

In addition to the hundreds of Soviet advisors and thousands of Soviet technicians reported to be streaming into Communist China, the USSR is represented by an Embassy, at least nine Consulates, and upwards of 60,000 Russian emigres who in recent years have become Soviet citizens.

In Manchuria, exclusive of Soviet forces in Port Arthur and on the railways, there are believed to be more than 35,000 Russians, almost all of whom are Soviet citizens. The largest Russian community is in Harbin, with perhaps 30,000; another 5,000 or more reside in Dairen, Mukden, Changchun and in other major cities. Soviet Consulates-General in Harbin and Dairen operated openly throughout the period in which the USSR had no official relations with Communist China; another Consulate has probably been opened in Mukden, and smaller offices in other Northeast cities.

In Sinkiang, there are possibly 20,000 Russians, of whom at least 15,000 were Soviet citizens even in 1947, in addition to some thousands of non-Russian natives with Soviet citizenship. About 10,000 Russians are believed to be in Ining, and the rest in Tihua, Kashgar, T'a-ch'eng, Cheng-hua, Yarkland and Hami. There are Soviet Consulates-General or Consulates in the first five of those cities, a disproportionately large representation which reflects other Soviet interests there.

In China Proper, exclusive of newly-arrived personnel, there are perhaps 10,000 Russians, of whom probably three-fourths or more are Soviet citizens. About half are in Shanghai, the other in Tientsin, Peiping, Tsingtao, Hankow, Kalgan, Nanking, Canton and elsewhere. The Soviet Embassy is in Peiping, Consulates-General are in Shanghai and Tientsin, and Consulates or consular offices are expected in the other cities named.

In offering Soviet citizenship to the ex-emigres, the USSR was interested in (1) organizing and indoctrinating those whose services would be valuable to China, and (2) repatriating those whose skills were desired in the USSR or whose presence was not desired in China. Those in the first category became respectable representatives of the USSR and were very useful to the Soviet intelligence service, while several thousand of the others were repatriated forcibly (from Manchuria) or voluntarily (from Sinkiang and China Proper) from 1945 to 1948.

Coordination of Soviet and Chinese Communist policy, in regard to both Red and White Russians in China, is expected shortly. Russian

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emigrant organizations will be closed down and their property transferred to Soviet hands; the few thousand remaining Whites will be pressed to accept Soviet citizenship; few Red or White Russians will be permitted to emigrate from China; and several thousand more Russians will be repatriated to the USSR. The majority of ex-emigres in China will probably be permitted to remain, but these Russian communities will be under the close surveillance and tight control of Soviet officials, and there is no prospect of an effective anti-Soviet effort by any group of Russians in China.

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